



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

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Third District

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Fifth District

November 16, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W T Fujioka", is written over the printed name of the Chief Executive Officer.

SACRAMENTO UPDATE

Legislative Analyst's Office Fiscal Outlook for California

On November 14, 2007, the Legislative Analyst's Office (LAO) released its latest report, California Fiscal Outlook: LAO Projections, 2007-08 through 2012-2013. In the report, the LAO identified several factors that have led to a forecast deficit in the State's FY 2007-08 Budget. Key factors include a continued weakness in the State's economy resulting in reduced revenue, lower property taxes requiring increased State General Fund spending on K-14 education, a delay in the sale of the State's student loan guarantee program (EdFund), delayed implementation of new tribal gaming compacts, and a court ordered payment to the State's teacher retirement system.

2007-08 State Budget

In addition to the negative factors previously mentioned, the State is expected to incur additional expenditures which were not anticipated in the FY 2007-08 Budget, including a salary increase for correctional peace officers (\$258 million), unrealized unallocated cost savings (\$240 million), and additional firefighting costs (\$174 million, a portion of which may be reimbursed in future years). At the time of enactment, the Budget Act of 2007 projected revenues and expenditures of \$102.3 billion and an anticipated \$4.1 billion year-end reserve. The LAO now asserts that in the absence of any corrective actions, the State will face a year-end deficit of \$1.9 billion in 2007-08.

Forecast for FY 2008-09

The FY 2007-08 State Budget used a number of one-time strategies to balance expenditures and revenues. Thus, the shortfall for FY 2008-09 at the time of passage of the FY 2007-08 State Budget was estimated at \$5.0 billion to \$6.0 billion. Notwithstanding any current year adjustments, the 2008-09 fiscal year is expected to begin with a carry-in deficit of \$1.9 billion. Revenues are expected to increase by 4.6 percent to \$103.5 billion. Expenditures are forecast to increase to \$111.4 billion. Utilizing these assumptions, the forecast for FY 2008-09 is estimated at \$9.8 billion.

Forecast for Future Fiscal Years

The LAO forecasts operating shortfalls beyond FY 2008-09 as unadjusted expenditures continue to exceed revenues. The shortfall for FY 2009-10 is estimated at \$8.0 billion. The repayment of deficit financing bonds in 2010 should result in an improvement in the State's revenues for future years. The LAO estimates operating shortfalls of \$3 billion for the periods 2010-2011 through 2012-2013.

Possible Balancing Strategies

In order to address ongoing operating deficits, the State will have to make significant adjustments to its budgeting strategy. The LAO has identified a number of options for the Legislature to consider. These options include: 1) reducing or eliminating cost-of-living adjustments; 2) reversal of current year increases in program funding; 3) shifting the cost of General Fund programs to special funds or to user fees; 4) elimination of tax credits; 5) increased tax payment compliance; and 6) increasing tax rates.

The LAO recommends that the Legislature consider making current year adjustments to bring the current year budget into balance. This would require at least \$1.9 billion of savings through the remainder of the year. The LAO indicates that current year savings options for the Legislature to consider include: 1) reducing funding for K-14 schools to the minimum required under the Proposition 98 formula (\$400 million); and 2) the delay or suspension of the SSI/SSP COLA (\$250 million).

Budget Schedule

The Governor, with the assistance of the Director of Finance, is compiling his Proposed Budget for FY 2008-09 which will be released approximately January 10, 2008. This is a few days after the Legislature convenes on January 7, 2008, for the second year of the 2007-08 Legislative Session. Legislative hearings on the proposed budget are expected to begin in late-February to early March 2008.

In view of the magnitude of the budget shortfall, Senate Republican Leader Dick Ackerman issued a press release on November 14, 2007, calling on the Legislature to act immediately to address the shortfall. In addition, Republican Senate Caucus Chair

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George Runner has requested the Governor call a special session to address the fiscal condition of the State. The Senate Budget and Fiscal Review Committee scheduled a hearing of the LAO report for Tuesday, November 27, 2007.

We will continue to keep you advised.

WTF:GK
MAL:IGA:lm

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participant